HEALTH

0530 California Health and Human Services Agency

The California Health and Human Services Agency (CHHS) administers the state's health, social services, rehabilitative and employment programs. The Secretary of the CHHS advises the Governor on major policy and program matters and oversees the operation of the agency departments. The purview of the CHHS includes: (1) the departments of Aging, Alcohol and Drugs, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services, (2) the Health and Human Services Data Center, (3) the Office of Statewide Health Planning and Development, (4) the Managed Risk Medical Insurance Board, and (5) the Emergency Medical Services Authority.

Through the Budget Act of 2001 and SB 456 (Speier), Statutes of 2001, the Office of Health Insurance Portability & Accountability Act (HIPAA) Implementation was created. This office resides within the CHHS Agency.

The Office of HIPAA Implementation has statewide responsibility for the implementation of the federal HIPAA. The portion of HIPAA dealing with administrative simplification requires all billing and other electronic data transmissions to be standardized, as well as establishing new standards for the confidentiality and security of this information. The office was established to direct and monitor this process.

Summary of Funding

The budget proposes total expenditures of $5.6 million ($3.8 million General Fund), or a *net* increase of $426,000 (General Fund) over the Budget Act of 2003, and 23 positions for the agency. Of this amount, almost $3.5 million and ten positions are for the Office of HIPAA Implementation.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Secretary for Health & Human Services	$2,208	$2,063	($145)	6.5
Office of HIPAA	$3,635	$3,509	($126)	3.5
Total, Health & Human Services Agency	$5,843	$5,572	($271)	4.6

Highlights for the CHHS Agency

- **Request to Fund State Commission.** The Governor proposes an increase of $364,000 (General Fund) and two positions to staff the California Health Care Quality Improvement and Cost Containment Commission as proposed in AB 1528, Statutes of 2003. It should be noted that the Commission has not as yet been constituted.

- **Expand Office of Health Insurance Portability & Accountability Act (HIPAA).** The Governor provides an augmentation of $111,000 ($88,000 General Fund) and one position for continued HIPAA implementation. It should be noted that this same position was eliminated as of June 30, 2003, because it was vacant.

2400 Department of Managed Health Care

The purpose of the Department of Managed Health Care (DMHC) is to protect the public through administration and enforcement of laws regulating health care plans. The administration of these laws involves a variety of activities including licensing, examination, and responding to public inquiries and complaints. The program enforces its laws through administrative and civil action. Specifically, the DMHC licenses health care plans, conducts routine financial and medical surveys, and operates a consumer services toll-free complaint line.

The DMHC has three advisory boards--the Advisory Committee on Managed Care, the Clinical Advisory Board, and the Financial Standards Solvency Board. In addition, the Office of the Patient Advocate located within the DMC will help ensure that the needs of managed care consumers are heard and met.

Summary of Funding

The budget proposes total expenditures of $5.3 million (Managed Care Fund) and 259 personnel-years for the DMHC, which includes $2.2 million for the Office of Patient Advocate. This reflects a slight decrease of about $500,000 (Managed Care Fund) over the revised 2003-04 budget due to technical adjustments. The DMHC is funded entirely with special funds derived from Health Care Plans paying annual assessments as outlined in Health and Safety Code, Section 1356.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Health Care Service Plans	$33,614	$33,122	($492)	1.5
Office of Patient Advocate	$2,181	$2,179	($2)	--
Total, Health Plan Program	$35,795	$35,301	($494)	1.4

4120 Emergency Medical Services Authority

The overall responsibilities and goals of the Emergency Medical Services Authority (EMSA) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the "911" emergency telephone system.

Summary of Funding

The budget proposes total expenditures of $22.4 million ($10.7 million General Fund) for the EMS Authority. This includes an increase of $6 million (federal funds) to reflect the receipt of additional federal grant funds from the federal Health Resources and Services Administration. These federal funds are to be used for continued development and implementation of regional plans to improve the capacity of hospitals for responding to situations requiring mass immunization, treatment, isolation and quarantine in the event of infectious disease outbreaks or bioterrorism. No other significant actions are proposed.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Emergency Medical Services	$21,101	$22,436	($1,335)	6.3
Funding Source				
General Fund	10,748	10,748	--	--
Federal Funds	3,886	3,610	($276)	7.1
Reimbursements	5,049	6,676	$1,627	32.2
Other Funds	1,418	1,402	($16)	1.1
Total, Emergency Medical Services	$21,101	$22,436	($1,335)	6.3

4250 California Children and Families Commission

The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members. Three of the members are appointed by the Governor, two by the Senate Rules Committee, and two by the Speaker of the Assembly.

The commission is responsible for the implementation of comprehensive and integrated solutions to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are to be provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by the proposition, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

Summary of Funding

The budget proposes total expenditures of $565.9 million (special trust funds) for a decrease of $189.1 million over the revised current year. This reduction is due to a decline in revenues and a decline in carry-over funds which were available and have since been expended.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children's health care, child care and development, and family literacy.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Administrative Functions	$4,400	$4,900	$500	11.3
Local Assistance—Counties	$532,817	$449,078	($83,739)	15.7
Mass Media Account	$52,885	$34,635	($18,250)	34.5
Education Account	$58,431	$29,530	($28,901)	49.5
Child Care Account	$38,742	$17,818	($20,924)	54
Research & Development Account	$46,859	$17,977	($28,882)	61.6
Unallocated Account	$20,891	$11,912	($8,979)	42.9
Total Expenditures	$755,025	$565,850	($189,175)	74.9

4260 Department of Health Services

The goals of the Department of Health Services (DHS) are to: (1) promote an environment that contributes to human health and well-being; (2) ensure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness; and (5) ensure economic expenditure of public funds to serve those persons with the greatest health care needs. These goals are carried out through three key programmatic areas, including the Medi-Cal Program, Childrens Medical Services, and Public and Environmental Health.

The budget proposes expenditures of $34.3 billion ($12.2 billion General Fund), or a *net* increase of $1.722 billion ($1.793 billion General Fund) over the revised 2003-04 budget. Of the total budget amount, $33.3 billion is for local assistance and $910.5 million is for state support. State support expenditures include funds for 5,505 authorized positions.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Public & Environmental Health	$849,802	$590,738	($259,064)	(30.5)
Medical Care Services	$29,214,486	$31,215,695	$2,001,209	6.8
County Health Services	$52,025	$47,811	($4,214)	(8.0)
Primary Care & Family Health	$1,531,310	$1,494,744	($36,566)	(2.4)
State Mandates	$4	$4	--	--
State Administration & Operations	$889,891	$910,527	$20,636	2.3
Totals, by Program Source	$32,537,518	$34,259,519	$1,722,001	5.3
Funding Source				
General Fund	$10,407,430	$12,200,656	$1,793,226	17.2
Federal Funds	$19,141,250	$19,527,815	$386,565	2.0
Special Funds & Reimbursements	$2,988,838	$2,531,048	($457,790)	(15.3)
Totals, by Fund	$32,537,518	$34,259,519	$1,722,001	5.3

Highlights for the Medi-Cal Program

Summary of Funding and Enrollment. The Governor proposes total expenditures of $31.2 billion ($11.6 billion General Fund) which reflects a General Fund increase of $1.6 billion, or 16.2 percent above the Budget Act of 2003. The General Fund increase primarily reflects the costs of using one-time savings in 2003-04 from the accrual-to-cash accounting change, and the discontinuation of the enhanced federal financial participation provided in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

Caseload is anticipated to increase by about 220,000 for a total of about 6.8 million average monthly eligibles. According to the DOF, Medi-Cal provides health insurance coverage to about 17 percent of Californians. Of the total Medi-Cal eligibles about 45 percent, or 2.8 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs). Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

Summary of Governor's Reductions and Augmentations

- **Loss of Enhanced Federal Funds.** The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through

June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of $655.4 million General Fund.

- **Affect of Accrual to Cash Change.** AB 1762 (Chapter 230, Statutes of 2003), the omnibus health trailer bill to the Budget Act of 2003, changed Medi-Cal from an accrual to cash accounting system. As such, savings of $994 million (General Fund) are to be realized for 2003-04. For 2004-05, there will be increased costs of $994 million due to the end of this one-time savings.

- **Proposed Restructuring and Reform of Medi-Cal via a New Federal Waiver.** The Governor proposes to seek a federal waiver that *may* include all or any of the following components:

  - Simplification by aligning Medi-Cal's eligibility standards and processes with CalWORKs and the SSI/SSP program;
  - Development of a multi-tiered benefit/premium structure that provides comprehensive benefits to federally mandated populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums;
  - Requiring co-payments for various services;
  - Conform the basic Medi-Cal benefits package to that of private health plans, including making changes to mental health benefits provided under the EPSDT Program for children; and
  - Expand Medi-Cal Managed Care to additional counties, review and reform managed care reimbursement policies and encourage the enrollment of the aged, blind and disabled into managed care.

  No savings for 2004-05 are identified since only a framework of ideas is proposed at this time. However, the Administration anticipates savings of $400 million General Fund in 2005-06 from this as yet unidentified restructuring. The Governor is also seeking an increase of almost $6 million ($2.2 million General Fund) in 2004-05 for new state positions and system changes for this effort.

- **Reduces Medi-Cal *and* Non-Medi-Cal Rates by a Total of 15 Percent**. In his mid-year reduction proposal, the Governor proposed to reduce Medi-Cal rates by *another* 10 percent, which is in addition to the five percent reduction made in the Budget Act of 2003 and to carry this reduction level forward for a combined level of 15 percent. As noted in the table below, the two-year combined General Fund savings would be about $960 million.

- **Cap on Enrollment for State-Only Programs.** The Governor proposes to cap enrollment, effective January 1, 2004, in several "state-only" (i.e., supported solely with the General Fund) Medi-Cal programs, including: (1) the Breast and Cervical Cancer Treatment Services (BCCT) Program for undocumented individuals, (2) non-emergency services for legal immigrants, and (3) non-emergency services for undocumented individuals. Under this proposal, the DHS would establish statewide waiting lists on a first come first served basis. Proposed savings are $1.8 million (General Fund) for the BCCT Program, $5.6 million for

non-emergency services for legal immigrants, and $9.8 million (General Fund) for non-emergency services to undocumented individuals. The proposed savings result from the denial of health care services. Each of these proposals would require statutory change for implementation to occur.

- **Assumes Elimination of Supplemental Wage Rate Adjustment for Nursing Homes.** The Governor assumes approval of his mid-year reduction proposal to eliminate $46 million (General Fund) in 2003-04 for the supplemental wage rate adjustment to be paid to nursing homes who have collective bargaining agreements or contracts that increase wages for their staff. This proposal requires a statutory change.

- **Significant Increase for Medicare Part A and Part B Premiums.** The Governor proposes to provide an increase of $109.3 million (General Fund) for the state to pay the premium of dually eligible Medi-Cal/Medicare enrollees. This growth is due to expected federal premium rate increases to be effective January 2005, and the continued growth in the number of aged and disabled persons eligible for Medi-Cal and Medicare.

- **Orthopaedic Hospital Settlement—Hospital Rates.** The settlement in *Orthopaedic Hospital v. Belshe'* requires hospital outpatient rates to be increased each year from 2001-02 through 2004-05. The cost of the settlement will increase by $51.2 million (General Fund) in 2004-05 due to the application of the final rate increase and the updating of the costs for managed care eligibles.

- **Reduce Medi-Cal Provider Float.** The Governor proposes to delay Medi-Cal check-writes by one week, thereby reducing the number of total check-writes in the year, for proposed savings of $287 million ($143.5 million General Fund). The delay in the check-writes will allow for a more thorough review of claims for anti-fraud purposes as well.

- **Reduce Interim Rates by 10 Percent for Cost Reimbursed Acute Care Hospitals.** The Governor proposes to reduce by 10 percent the interim rates paid to reimburse acute care hospitals (those not contracting with the state--usually smaller, rural hospitals) for savings of $62 million ($31 million General Fund). According to the Administration, they still intend to do the normal cost-settlement process at the end of the year.

- **Revise Rate Methodology for Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHCs).** The Governor proposes to significantly alter the existing prospective rate methodology for certain community-based clinics for proposed savings of $64.5 million ($32.3 million General Fund). Specifically, the alternative rate methodology provided for under the prospective rate process would be eliminated as of April 1, 2004.

- **FQHC and RHC Adjustments for Changes in Scope of Service and Related Items.** The Governor proposes an increase of $9.9 million (total funds) in the current year and $212.6 million ($106.3 million General Fund) for 2004-05 for FQHCs and RHCs to reflect the costs of managed care differential payments, scope of service changes authorized by federal law, and additional payments for services to Medicare crossover beneficiaries. It should be noted that all of these funds are owed to the clinics for services provided and that the amount includes retroactive payments for the period that began January 1, 2001. Specifically about $157.8 million (total funds) of the $212.6 million amount is for retroactive payments for prior years.

- **Federal Adjustments to FQHCs and RHCs for Prospective Payments.** The Governor proposes an increase of $31.9 million ($15.9 million General Fund) for FQHCs and RHCs that have opted to participate in the federal Prospective Payment Reimbursement (PPS) method of Medicaid (Medi-Cal) reimbursement. This increase reflects the annual Medicare Economic Index increase of 3 percent effective as of October 1, 2003, with another adjustment of 3 percent as of October 1, 2004.

- **Recoupment of Federal Funds for FQHC/RHC Overpayments by State.** The Governor proposes a decrease of $47.1 million (General Fund) to reflect an overpayment made by the state to the federal government. Specifically, the DHS recently discovered that the Medi-Cal Program has been inadvertently returning recoupments from FQHCs and RHCs at 100 percent of expenditures rather than the appropriate rate of 50 percent. As such, the state is seeking the return of these funds from the federal government.

- **Quality Improvement Assessment Fee for Medi-Cal Managed Care Plans.** The Governor proposes to modify the quality improvement assessment fee adopted in the Budget Act of 2003 in order to obtain federal approval. Through this mechanism, managed care plans will pay a quality improvement assessment fee to the state. The state will then obtain a federal match of the fee assessment. These funds would then be used to improve the quality of care in managed care plans through a rate enhancement, and the state would utilize the remaining amount as a General Fund offset. It is anticipated that a savings of $75 million (General Fund) will be obtained.

- **Reform of Adult Day Health Care.** The Governor proposes to implement a twelve-month moratorium on the certification of new Adult Day Health Care Centers (ADHCs) and to change the way they are reimbursed for services (i.e., unbundling the rate and billing separately for therapies and transportation services) for proposed savings of $25.4 million ($12.7 million General Fund). It should be noted that this proposal was rejected by the Legislature last year.

- **Changes to Rates Paid for Mental Health.** The Governor proposes to reduce by $95 million ($40 million General Fund) the rates paid for mental health services through the rebasing of the statewide maximum allowances.

- **Increase Oversight of Early Periodic Screening, Diagnosis and Treatment (EPSDT) Program.** The Governor proposes savings of $13 million ($6 million General Fund) by providing more oversight of the program through audits and related measures.

- **Reduces County Administration Costs.** The Governor proposes to reduce by $20 million ($10 million General Fund) the allocation provided to counties for Medi-Cal administration. According to the Administration, this savings will be achieved by not granting any cost-of-living-adjustments (COLA) to county workers that exceed the average COLA granted to state workers as well as other measures.

- **More State Staff for Treatment Authorization Review.** The Governor proposes an increase of $4 million ($1 million General Fund) to hire 36 new state staff to process treatment authorization requests (TARS). In addition, the Governor seeks trailer bill legislation to grant the DHS authority to do TAR reviews on a sample basis.

- **More State Staff for Anti-Fraud Efforts.** The Governor proposes an increase of $1.3 million ($464,000 General Fund) to support 15 new state staff to continue with the current re-enrollment of providers into the Medi-Cal Program.

- **Transfers Breast and Cervical Cancer Treatment Eligibility Determinations to the Counties.** The Governor proposes to shift the Breast and Cervical Cancer Treatment Program eligibility determinations and re-determinations from the state to the counties effective January 1, 2005. Under this proposal, the state would eliminate one of its existing twelve positions as of January 1, 2005 and nine positions would be retained through June 2005 to provide for a six-month transition period to the counties. Two state positions would remain permanently to ensure that the counties are performing the processing consistent with state and federal program requirements. The counties would receive on-going funding of $1.2 million ($649,000 General Fund) for this purpose.

- **Eliminates Sunset Date for California Partnership for Long-Term Care Program.** The Governor proposes an increase of $590,000 ($208,000 General Fund) and 5 positions to continue the California Partnership for Long-Term Care Program which promotes the purchase of high quality long-term care insurance policies. Statutory change is required to eliminate the sunset date.

Issues for the Medi-Cal Program

1. Loss of Enhanced Federal Funds. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of $655.4 million General Fund. Since most states are still experiencing considerable funding shortfalls in their Medicaid (Medi-Cal) programs, the Governor and Legislature may want to seek continuation of this federal fiscal relief or other similar assistance.

2. Reduces Medi-Cal by a Total of 15 Percent. In his mid-year reduction proposal, the Governor proposes to reduce Medi-Cal rates by *another* 10 percent, which is in addition to the five percent reduction made in the Budget Act of 2003 and to carry this reduction level forward for a combined level of 15 percent. As noted in the table below, the two-year combined General Fund savings would be about $960 million. For providers, this would mean a loss of almost $1.9 billion in reimbursements over the course of the two-year period.

It should be noted that the United States District Court recently issued a preliminary injunction stopping the implementation of the five percent reduction for the fee-for-service reimbursement rates. The state has submitted a Motion for Reconsideration on this issue. As such, further court action is pending. Further, the additional 10 percent reduction requires state statutory change for implementation.

Proposed Medi-Cal Provider Rate Reduction for 2003-04 & 2004-05

Medi-Cal Category	2003-04 Assumed General Fund Savings	2004-05 Assumed General Fund Savings	Total Assumed General Fund Savings
Physicians Services	$22,787,000	$66,318,000	$89,105,000
Other Medical	16,002,000	45,063,000	61,065,000
Pharmacy	137,463,000	298,623,000	436,086,000
Medical Transportation	3,236,000	9,042,000	12,278,000
Other Services	18,718,000	53,494,000	72,212,000
Home Health	4,029,000	11,700,000	15,729,000
Dental Services	17,163,000	34,224,000	51,387,000
Early Periodic Screening Diagnosis and Treatment	811,000	2,133,000	2,944,000
Managed Care Plans	38,239,000	157,000,000	195,239,000
Family PACT	4,452,000	19,200,000	23,652,000
Total General Fund	**$262.9 million**	**$696.7 million**	**$959.6 million**
5 Percent Total (Rounded)	**($102.8 million)**	**($236.8 million)**	**($339.6 million)**
10 Percent Total (Rounded)	**($160.1 million)**	**($459.9 million)**	**($620 million)**

Exempt from the proposed reduction are: hospital inpatient services, hospital outpatient services, state operated facilities—i.e., Developmental Centers and State Hospitals for the mentally ill—and Federally Qualified Health Centers/Rural Health Centers. Hospital inpatient services are exempt since the state negotiates inpatient services through the CMAC, and hospital outpatient services are addressed in the Orthopaedic Settlement Agreement. Federal law prohibits an across-the-board rate reduction for FQHC/RHC facilities since a cost-based or prospective payment system is used.

There is some evidence that the rates paid to providers could affect access to health care and the quality of care to patients. A recent national analysis of Medicaid physician rates by The Urban Institute concluded that physician fee levels affect both access and outcomes for Medicaid patients.

In the Budget Act of 2000, most services provided under Medi-Cal received rate adjustments. This action was not an across-the-board rate increase, but instead targeted services for which Medi-Cal physician rates were relatively low in comparison to the Medicare Program. Generally, other than annual adjustments for nursing home rates, there had not been a rate increase for most Medi-Cal services prior to the Budget Act of 2000 since 1986.

A Pricewaterhouse study completed last year found that, even after accounting for the rate increase provided in 2000, Medi-Cal rates continue to lag behind those of other purchasers of health care coverage in California. Another study released last year found that while the 2000 Medi-Cal rate increases were substantial, they collectively only brought the Medi-Cal provider rates from 58 percent to 65 percent of California's average Medicare payment rates.

3. Proposed Restructuring and Reform of Medi-Cal via a New Federal Waiver. The Governor proposes to seek a federal 1115 Research and Demonstration Waiver to restructure and reform the existing Medi-Cal Program. Several states, most notably Oregon and Utah, have recently obtained this form of federal waiver. However, each state's waiver is highly unique because 1115 Waivers are research and demonstration efforts designed to provide states with broad authority and flexibility to test new ideas that warrant policy merit. By definition, all federal waivers must be cost-beneficial (i.e., not result in higher expenditures) over the period of the waiver—usually five years—and then must be renewed with the federal government. All waivers must contain an evaluation component that addresses both policy and fiscal issues.

California presently has twenty federal Medicaid (Medi-Cal) waivers. Most of these waivers are for uniquely defined populations and services, or provide services using different service delivery models. These waivers enable the state to save money for services that would otherwise be delivered using a more expensive mechanism. Several of California's key waivers include the following:

- **Family PACT.** This waiver provides pregnancy prevention services, including contraceptives, and sexually transmitted disease preventive services and education. Serves about 1.5 million women and men annually.
- **Los Angeles County.** This waiver allows Los Angeles County to restructure its public health delivery system and increase delivery of outpatient and preventative health care services.
- **County Organized Health Care Systems (COHS).** California has five COHS, including the Health Plan of San Mateo, Partnership Health Plan of California, Santa Barbara Health Initiative, Central Coast Alliance for Health, and Cal OPTIMA. Waivers—primarily to waive an individuals freedom of choice to select a provider—are used to operate each of these under Medi-Cal.
- **Selective Provider Contracting Program.** This waiver enables the state to selective contract with certain hospitals to provide inpatient Medi-Cal services to recipients. It is one of the state's longest operating waivers and has saved the state well over a billion dollars over the past dozen years or so.
- **Specialty Mental Health (Mental Health Managed Care).** This waiver enables the state to contract with County Mental Health Plans (County MHPs) to provide mental health services for enrollees with specified diagnoses requiring treatment by licensed mental health

professionals. It is through this waiver that the counties operate and manage the state's Medi-Cal Mental Health Managed Care system.

- **Home & Community-Based Waiver for Individuals with Developmental Disabilities.** This waiver enables the state to provide home and community-based services to individuals with developmental disabilities who are Regional Center clients and reside in the community as an alternative to care provided in an Intermediate Care Facility for the Developmentally Disabled (ICF-DD). About 60,000 individuals are currently enrolled with this number increasing to 70,000 by the end of 2006.
- **Multipurpose Senior Services Program (MSSP).** This waiver provides home and community-based services to Medi-Cal recipients who are 65 years or over and are medically needy. This waiver enables these individuals to live in their home versus living in a nursing care facility.

Each of California's existing waivers, particularly those noted above, required considerable forethought, expert planning and analysis, communication with constituency groups, capacity building with providers, interaction with the Legislature and federal government, and carefully crafted implementation strategies to ensure the continuity of patient care. Most of these waivers required considerable time and concentrated work to phase-in—usually over a period of multiple years.

The Governor's proposed Waiver is presently a framework. This Waiver *may* include all or any of the following components:

- Simplification by aligning Medi-Cal's eligibility standards and processes with CalWORKs and the SSI/SSP program;
- Development of a multi-tiered benefit/premium structure that provides comprehensive benefits to federally mandated populations and basic benefits to optional eligibles, with more comprehensive benefits available to those willing to pay premiums;
- Requiring co-payments for various services;
- Conform the basic Medi-Cal benefits package to that of private health plans, including making changes to mental health benefits provided under the EPSDT Program for children; and
- Expand Medi-Cal Managed Care to additional counties, review and reform managed care reimbursement policies and encourage the enrollment of the aged, blind and disabled into managed care.

No savings for 2004-05 are identified since only a framework of ideas is proposed at this time. However the Administration assumes savings of $800 million ($400 million General Fund) for 2005-06. No details on this cost calculation are available. The Administration states that this is a "place-holder" figure but that maximizing cost containment is a principal goal of the proposal.

The Administration contends that various options for reform are being considered and that they will be convening meetings and constituency workgroups over the next three months to further discuss potential components. How these interactions will be used to craft the proposal is unknown at this time for the process will not commence until February.

The time table proposed by the Administration is very aggressive particularly given the complexities of modifying an entire program that services 6.8 million recipients, has a statewide network of thousands of various health care providers, and serves a diverse, medically-needy population. Further, it is unknown at this time how many of the state's existing waivers will be incorporated into this very encompassing waiver. The proposed time table is as follows:

- February 2004—Start stakeholders meetings and continue throughout the process.
- May 2004—Waiver concept paper submitted to the Legislature.
- July 2004—Obtain budget trailer bill legislation to implement.
- October 2004—Submit waiver to federal Centers for Medicare and Medicaid (CMS).
- December 2004—CMS approval obtained.
- December 2004-June 2005—County and state system changes.
- July 2005 through June 2006—Phased in waiver implementation.

As specifics come forth from the Administration it will be imperative for the Legislature to thoroughly discuss the policy merits of the proposal and its short-term and long-term implications for providing health care to medically needy individuals. Further, the Legislature will need to maintain legislative authority over the program in order to preserve the integrity of the overall program and the services provided under it.

Highlights for Primary Care & Family Health, Public Health & Environmental Health and County Health Services

Summary of Funding. The Governor proposes expenditures of $2.756 billion (total funds) for 2004-05. This consists of: (1) $1.640 billion for Primary Care and Family Health, (2) $904.1 million for Public and Environmental Health, (3) $51.8 million for County Health Services, (4) $114.7 million for Licensing and Certification, and (5) $45.2 million in department administration. This represents a decrease of $55.6 million, or 8.1 percent, below General Fund expenditures compared to the Budget Act of 2003.

The Governor is proposing significant policy changes to the AIDS Drug Assistance Program (ADAP), the California Childrens Services (CCS) Program, and the Genetically Handicapped Persons Program (GHPP). These key changes and other adjustments are discussed below.

Summary of Governor's Reductions and Augmentations

- **Caps AIDS Drug Assistance Program (ADAP).** The Governor proposes to continue his mid-year reduction proposal to cap enrollment in ADAP at 23,891 individuals. Under this proposal, a statewide waiting list would be established on a first come first served basis. New clients would be allowed into the ADAP only as enrolled clients leave. The budget assumes savings of $275,000 (General Fund) in 2003-04 and $550,00 (General Fund) in 2004-05 by denying HIV/AIDS drug treatment assistance to low-income individuals with HIV/AIDS. Individuals enrolled in the ADAP often continue in the program for long periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. Other adjustments to the ADAP are discussed below.

- **Caps the California Children's Services (CCS) Program and Reduces Rates.** The Governor proposes to make two significant changes to the CCS Program. First, he proposes to cap the enrollment of CCS-only children (i.e., not eligible for Medi-Cal or Healthy Families) as of January 1, 2004 at an enrollment level of 37,594 children for proposed savings of $3.8 million ($1.9 million General Fund and $1.9 million County Realignment Funds). This savings level assumes that 1,256 children with significant medical needs do not receive treatment through the program.

  Second, he proposes to implement an *additional* 10 percent rate reduction, which is in addition to the five percent reduction adopted in the Budget Act of 2003. Proposed savings of $5.4 million ($2.7 million General Fund) are assumed from the total rate reduction (i.e., 15 percent reduction). Presently there is a court injunction in place which has halted implementation of the five percent reduction. Further court proceedings are anticipated. Both of these issues are further discussed below.

- **Caps the Genetically Handicapped Persons Program (GHPP), Reduces its Rates and Proposes New Copayment.** The Governor proposes to make three significant changes to the GHPP Program. First, he proposes to cap enrollment for GHPP-only (i.e., not Medi-Cal eligible) patients. This proposed cap in enrollment would be effective as of January 1, 2004 and would save $194,000 (General Fund) in 2004-05 by not providing services to 36 medically needy individuals. The GHPP serves individuals with hemophilia, cystic fibrosis, sickle cell, Huntington's Disease, and metabolic conditions who are either uninsurable or who have limited health insurance coverage.

  Second, he proposes to implement another 10 percent rate reduction, which is in addition to the five percent reduction adopted in the Budget Act of 2003. Proposed savings of $6.5 million (General Fund) are assumed from the total rate reduction (i.e., 15 percent reduction). Presently there is a court injunction in place which has halted implementation of the five percent reduction. Further court proceedings are anticipated.

  Third, the Governor proposes to implement a new copayment for the program effective July 1, 2004. A $10 copayment would be charged for each service. Savings of $576,000 (General Fund) are assumed from this action. The copayment amounts would be in addition to the GHPP enrollment fees which are already required on an annual basis.

- **Reduces Rates for the Child Health Disability Prevention Program.** The Governor proposes to implement another 10 percent rate reduction, which is in addition to the five percent reduction adopted in the Budget Act of 2003. Proposed savings of $570,000 (General Fund) are assumed from the total rate reduction (i.e., 15 percent reduction). Presently there is a court injunction in place which has halted implementation of the five percent reduction. Further court proceedings are anticipated.

- **Increases for Federal Bioterrorism Funding.** The Governor proposes to increase by $76.5 million (federal funds) and 19 positions to continue the Bioterriorism Prevention and Preparedness Program. Of the increased amount, $47.2 million will be allocated to local health jurisdictions for their efforts.

- **Increased Federal Funds for California Nutrition Network for Healthy, Active Families.** The Governor proposes to increase by $39.7 million (reimbursements and local assistance

expenditures authority) for the social marketing campaign of the California Nutrition Network for Healthy, Active Families (Network). The Network is primarily funded through federal funds.

- **Funding for Proposition 99 Supported Programs Continue to Decline.** The Governor proposes a net reduction of $23.2 million ($11.1 million Health Education Account, $4.2 million Hospital Services Account, $7.7 million Unallocated Account) to programs within the DHS. The affect of this proposed reduction is as follows:
  - Reduces by $3.7 million the Tobacco Media Campaign. The DHS will eliminate its contracts for media in rural and smaller markets. Funding for ethnic subcontractors will decrease as well.
  - Reduces by $3.7 million the Competitive Grants. The reduction will result in a loss of telephone counseling and cessation services, as well as a reduction in printed materials.
  - Reduces by $3.7 million Local Lead Agencies.
  - Reduces by $5.9 million the California Healthcare for Indigents Program (CHIP). Allocations to all 24 participating counties will be reduced. Fewer outpatient services will be provided, and treatment services to children under the CHDP will be diminished.
  - Reduces by $6.1 million the Breast Cancer Early Detection Program. This reduction will result in about 39,927 women not receiving breast cancer screenings and diagnostic services.
  - Increases by $288,000 (Research Account) to fund state positions to coordinate the Ken Maddy California Cancer Registry.
- **Continues Deferral of State Support for County Medical Services Program.** The Governor proposes to suspend for one year the $20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP). This $20.2 million has been suspended for the past several years since the CMSP has had reserve funds available. However, it is unknown at this time if the CMSP can continue to fully operate using only County Realignment Funds and dwindling Proposition 99 funds.
- **Eliminates the Community Challenge Grant Program.** The Governor proposes to eliminate the Community Challenge Grant Program which promotes community-based strategies to prevent teenage pregnancy and absentee fatherhood for savings of $19.9 million (federal funds). These federal funds were not made available to California this year.
- **Prostate Cancer Treatment—Spending Down Prior Appropriations.** The Governor proposes no ongoing appropriation for the Prostate Cancer Treatment Program for low-income men who are uninsured and have prostate cancer. As such, only $741,000 (General Fund) is available for expenditure for this program in 2004-05.
- **Extends California Partnership for Long-Term Care.** The Governor proposes an increase of $590,000 ($208,000 General Fund, $295,000 federal funds, and $87,000 in reimbursements) to support 5 positions to reflect an extension of the California Partnership for Long-Term Care Program.

- **Funds for Richmond Laboratory.** The Governor provides an increase of $1.3 million ($424,000 General Fund) to install and maintain information technology systems that support the Richmond Laboratory.

- **Provides Additional Assistance for Tissue Bank Licensure Program.** The Governor increases by $93,000 (Tissue Bank Licensure Fund) to support one new position to conduct onsite inspections. California currently licenses 300 tissue banks that supply reproductive tissue, human milk and bone marrow from living donors, and ocular tissue, bone, veins, tendons and heart valves from deceased donors to recipients dependent on human tissue.

- **Vital Records Conversion.** The Governor proposes an increase of $1.6 million (Health Statistics Special Fund) and six limited-term positions to implement SB 247 (Speier), Statutes of 2002. Specifically, this law requires the DHS to develop and implement a single statewide database of imaged birth and death records, establish the capability to electronically redact signatures from the certificates, and make the result electronically available in each County Recorder's Office and County Registrar's Office by January 1, 2006.

- **Electronic Death Registration.** The Governor proposes an increase of $338,000 (health Statistics Special Fund) to support the maintenance and operations of the Electronic Death Registration System (EDRS).

Issues for Primary Care, Family Health, Public Health and Environmental Health

1. Cap of Enrollment and Other Adjustments to the AIDS Drug Assistance Program. ADAP is a subsidy program for low and moderate income persons with HIV/AIDS who have no health care coverage for prescription drugs and are not eligible for the Medi-Cal Program. Under the program, individuals receive drug therapies through participating local pharmacies under subcontract with a statewide contractor. Studies consistently demonstrate that early intervention, minimizes more serious illness, reduces more costly treatments and maximizes an individuals productivity and health.

The budget proposes total expenditures of $207.3 million ($63.8 million General Fund, $97.7 million federal funds and $45.8 million in drug rebates) to serve 23,891 clients—the Governor's capped enrollment level as of January 1, 2004. Specifically this funding assumes the following:

- Savings of $550,000 (General Fund) by denying HIV/AIDS drug assistance to low-income individuals with HIV/AIDS;

- Net increase of $8.3 million ($3.032 million in ongoing drug rebates, $5.822 million in one-time drug rebates, and a decrease of $550,000 in General Fund) to support the existing caseload of 23,891 clients and drug formulary. It should be noted that the Administration contends further program restrictions, such as a reduction in the drug formulary, may occur even with this net increase in funding.

ADAP affects demand for Medi-Cal services. Without ADAP assistance to obtain HIV/AIDS drugs, individuals would be forced to: (1) postpone treatment until disabled and Medi-Cal eligible, or (2) spend down their assets to qualify, increasing expenditures under Medi-Cal. According to the DHS, 50 percent of Medi-Cal costs are borne by the state, whereas only 30

percent of ADAP costs are borne by the state. As such, ADAP has been a cost-beneficial program for the state.

2. Proposed Cap and Rate Reductions for the California Children's Services (CCS) Program. The California Children's Services (CCS) Program provides medical diagnosis, case management, treatment and therapy to financially eligible children with specific medical conditions, including birth defects, chronic illness, genetic diseases and injuries due to accidents or violence. The CCS services must be deemed to be *"medically necessary"* in order for them to be provided.

The CCS is the oldest managed health care program in the state and the only one focused specifically on children with special health care needs. It depends on a network of specialty physicians, therapists and hospitals to provide this medical care. By law, CCS services are provided as a separate and distinct medical treatment (i.e., carved-out service).

Total program expenditures of $220.5 million ($82.5 million General Fund, $75.3 million County Realignment Funds, $51.1 million federal Title XXI funds, $11.1 million federal Maternal & Child Health block grant funds, $500,000 patient enrollment fees, and $2.8 million other funds) are proposed for 2003-04. CCS was included in the State-Local Realignment of 1991 and 1992. As such, counties utilize a portion of their County Realignment Funds for this program.

CCS enrollment consists of children enrolled as: (1) CCS-only (not eligible for Medi-Cal or the Healthy Families Program), (2) CCS and Medi-Cal eligible, and (3) CCS and Healthy Families eligible. Where applicable, the state draws down a federal funding match and off-sets this match against state funds as well as county funds.

The Governor proposes the following key changes for the CCS:

- **Caps Certain CCS Children.** Caps the CCS-only children enrollment in the program as of January 1, 2004 at an enrollment level of 37,594 children for proposed savings of $3.8 million ($1.9 million General Fund and $1.9 million County Realignment Funds). This savings level assumes that 1,256 children with significant medical needs do not receive treatment through the program. Some of these children may be able to obtain treatment through county indigent health care programs or charitable care. However, CCS children by definition of being enrolled in the program are very medically involved and often require intensive treatment, as well as on-going treatment through their adolescent years. Capping this program could be catastrophic for these families and their children.

- **Provider Rate Reduction of 15 Percent.** The Governor proposes to implement an additional 10 percent rate reduction, which is in addition to the 5 percent reduction adopted in the Budget Act of 2003. The budget assumes savings of $5.4 million ($2.7 million General Fund) by reducing the rate effective January 1, 2004 by a total of 15 percent. It should be noted that a court injunction has halted implementation of the five percent reduction. Further court proceedings are anticipated and it is unknown at this time whether any reduction can be achieved.

  Through the Budget Act of 2000, the CCS Program was provided a rate increase of 39 percent. Other than a five percent increase granted in 1999, no rate adjustment had been provided since 1982. These rate adjustments resulted from data obtained from the Senate

Office of Research and their comprehensive report on the program (published in 2000), plus rate analyses conducted by the DHS, as well as the American Academy of Pediatrics and specialty physician groups.

To reduce CCS Program rates by an additional 10 percent could conceivably result in significant problems that were experienced previously. For example, it was previously documented that: (1) many provider groups were having extreme difficulty retaining and hiring for pediatric subspecialty positions, (2) patients were experiencing tremendous waiting times to receive necessary subspecialty services (three months to a year depending on the service), and (3) patients in rural and suburban areas were having to travel long distances to find a doctor authorized by CCS.

In lieu of the additional 10 percent rate adjustment, the Legislature may want to consider other cost saving options, such as using utilization controls on certain pharmaceuticals, medical supplies and laboratory services or other related program efficiencies.

4280 Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers the: (1) Healthy Families Program, (2) Access for Infants and Mothers (AIM) and (3) Major Risk Medical Insurance Program.

The budget proposes total expenditures of $1.156 billion ($313.6 million General Fund, $639.2 million Federal Trust Fund, $53.9 million County Health Initiative Matching Funds, and $149.7 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. Of this total amount, $7.3 million is for state operations. The budget proposes key changes to the Healthy Families Program. These are discussed below.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Major Risk Medical Insurance (including state support)	$40,109	$40,002	($107)	.3
Access for Infants & Mother (including state support)	$118,709	$118,152	($557)	.5
Healthy Families Program (including state support)	$808,422	$844,307	$35,885	4.4
County Health Initiative Matching Program	$153,846	$153,846	--	--
Totals, Program Source	$1,121,086	$1,156,307	$35,221	3.1
General Fund	$303,286	$313,592	$10,306	3.4
Federal Funds	$617,860	$639,162	$21,302	3.4
County Health Initiative Matching Fund	$53,846	$53,846	--	--

Other Funds	$146,094	$149,707	$3,613	2.4
Total Funds	$1,121,086	$1,156,307	$35,221	3.1

Highlights for the Healthy Families Program

Summary of Funding and Enrollment. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

A total of $839.1 million ($305.5 million General Fund, $523.6 million Federal Title XXI Funds, $4.2 million Proposition 99 Funds, and $5.8 million in Reimbursements) is proposed for the HFP, excluding state administration.

The budget assumes a total enrollment of 737,304 children as of June 30, 2005, for an increase of only 4,960 children over the revised current year enrollment level. This enrollment figure assumes enactment of the Governor's enrollment cap for the HFP. Under his cap almost 114,000 children are denied access to health, dental and vision care in 2004-05. The total enrollment figure is based on the sum of the four population segments as follows:

- Children in families up to 200 percent of poverty: 522,843 children
- Children in families between 201 to 250 percent of poverty: 150,226 children
- Children in families who are legal immigrants: 20,348 children
- Child Health Disability Prevention (CHDP) Gateway Access: 38,927 children

Other key funding assumptions are as follows:

- The payments to health, dental and vision plans remain unchanged from the Budget Act of 2003. For children from one to 19 years the average cost is $91.46 per month for all benefits. For infants 0 to 1 years with family income between 200 percent and 250 percent of poverty the average cost is $214.99 per month for all benefits. For infants born to AIM moms who enrolled on or after July 1, 2004, the AIM rate will be used until MRMIB can negotiate a new HFP rate (likely Spring 2004).
- The average subscriber premium payment is $5.49 per child per month.

Summary of Governor's Reductions and Augmentations

- **Proposed Cap on Healthy Families Program Enrollment.** The Governor proposes to cap enrollment in the HFP at 732,300 children as of January 1, 2004 as part of his Mid-Year Reductions. Under this proposal 22,200 children would be denied enrollment in the current year, and almost 114,000 children would be denied enrollment in 2004-05. No medical

necessity criteria would be used for establishing the waiting lists—strictly done on a "first come first served" basis.

As discussed further below, the budget year cap assumes a June 30, 2005 enrollment level of 737,304 children which reflects the capped level coupled with an enrollment of 4,960 infants born to women enrolled in the Access for Infants and Mothers (AIM) Program. The proposed cap cannot be implemented without changes to statute. The budget assumes no savings in the current year due to administrative cost increases, and $86.3 million ($31.5 million) for 2004-05 by denying access to health care for low-income children.

- **Proposed Two-Tiered Benefit Structure for Children.** The Governor proposes to implement a two-tiered benefit package commencing in 2005-06. Under this proposal, enrolled children with family incomes between 201 percent and 250 percent of poverty would be offered a choice of either a basic benefit package (excludes dental and vision coverage) or the standard HFP package. Enrollment in the standard HFP package would require higher monthly premiums and possibly more copayments. The budget assumes increased costs of $750,000 ($263,000 General Fund) to modify the HFP administrative system and related functions in 2004-05. The Administration has not yet provided details as to what level of savings may be anticipated in 2005-06 for this proposal, or what levels of monthly premiums or copayments would be assumed.

- **Proposed Block Grant to Counties for Legal Immigrants.** The Governor proposes to restructure and consolidate certain state-only funded programs that provide health and human services to legal immigrants, including the HFP, CalWORKs, the California Food Assistance Program, and the Cash Assistance Program for Immigrants. Under his proposal, these programs would have their enrollments capped and then funding would be shifted to the counties in the form of a block grant. Although funding for legal immigrants remains in the HFP budget for 2004-05, the budget reflects savings of $848,721 (General Fund) from this action, supposedly due to anticipated administrative efficiencies resulting from this proposal.

- **Continues County Health Initiative Matching Fund Program.** The Governor proposes to provide $153.8 million (County Health Initiative Matching Funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001 and as appropriated in the Budget Act of 2003. Counties, local initiatives and County Organized Health Care Systems can submit proposals to receive these available matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These matching funds are unexpended federal Title XXI State Children's Health Insurance Program funds which the state presently does not need to support the existing HFP.

- **Continues Funding for Rural Demonstration Projects.** Through the Budget Act of 2003, the Legislature shifted Proposition 99 Funds to the HFP to restore the Rural Demonstration Projects. The Governor continues to provide $2.8 million ($991,000 Proposition 99 Funds) for these valuable projects.

Issues for the Healthy Families Program

1. Proposed Cap on Healthy Families Program Enrollment. The Governor proposes to cap enrollment in the HFP as of January 1, 2004 as part of his Mid-Year Reductions. Under this

proposal, the Managed Risk Medical Insurance Board (MRMIB) would administer a waiting list and as attrition occurs, new enrollments would be accepted. No medical necessity criteria would be used for establishing the waiting lists—strictly done on a "first come first served" basis. The proposed enrollment cap would *not* apply to infants born to mothers enrolled in the Access for Infants and Mothers (AIM) Program. The proposed cap would require statutory changes.

The Administration proposes savings of $86.3 million ($31.5 million General Fund and $54.8 million federal Title XXI funds) in 2004-05 by withholding health, dental and vision coverage to almost 114,000 low-income children. Conceivably, these children would need to seek health care, dental and vision services from other sources, including county indigent programs, emergency room care, other available state programs, and charity care (as available), or become sicker and more medically involved.

Without question, prevention and early remediation are the most cost-beneficial approaches to overall health care, particularly children's health. Unhealthy children will have school adjustment problems and difficulty in learning and progressing through their education. Low-income families are paying premiums and copayments to have their children participate in this program because other health care options are not available to them. Limiting this option for families could be catastrophic.

MRMIB estimates that commencing July 1, 2004, about 20,000 children (about 2.7 percent of the total enrollees) would leave the HFP monthly due to age (over 19 years) or income level changes. However, if this natural attrition does not occur, additional children above the estimated 114,000 would be added to the waiting list.

The HFP Administrative Vendor would be delegated the responsibility of processing all aspects of the waiting lists. The budget includes a total of $2 million ($700,000 General Fund) across the two fiscal years for the Administrative Vendor for this purpose. Since the state has never activated a waiting list for this program, it is difficult to discern whether additional administrative costs would be incurred.

2. Proposed Two-Tiered Benefit Structure for Children. The Governor proposes to implement a two-tiered benefit package commencing in 2005-06. Under this proposal, enrolled children with family incomes between 201 percent and 250 percent of poverty would be offered a choice of either a basic benefit package (excludes dental and vision coverage) or the standard HFP package. Enrollment in the standard HFP package would require higher monthly premiums and possibly more copayments. The budget assumes increased costs of $750,000 ($263,000 General Fund) to modify the HFP administrative system and related functions in 2004-05. The Administration has not yet provided details as to what level of savings may be anticipated in 2005-06 for this proposal, or what levels of monthly premiums or copayments would be assumed.

The enabling HFP statute as adopted by the Legislature and Governor Wilson purposefully included dental and vision coverage along with health care services as a comprehensive children's package. Vision problems in children often go undetected and can result in poor school performance. Children need to see the blackboard, and see the words on the page to read and comprehend them. Medical literature often sites the need for improved dental care for California's children, including access to dentists. Further, the relationship between dental

health and overall physical health has been well documented. Dental problems can cause other health related problems, including infections, hearing problems, digestion and nutrition issues.

Low-income, working families choose the HFP because it is accessible and is often the only option available for insuring their children. Limiting the scope of services available may lead to significantly diminished health, as well as decreased school performance.

3. Proposed Block Grant to Counties for Legal Immigrants. The Governor proposes to restructure and consolidate certain state-only funded programs that provide health and human services to legal immigrants, including the HFP, CalWORKs, the California Food Assistance Program, and the Cash Assistance Program for Immigrants. Under his proposal, these programs would have their enrollments capped and then funding would be shifted to the counties in the form of a block grant. Although funding for legal immigrants remains in the HFP budget for 2004-05, the budget reflects savings of $848,721 (General Fund) supposedly due to anticipated efficiencies resulting from this proposal.

Shifting a portion of the HFP to the counties makes no sense. The HFP provides a well-defined benefits package at an efficient price by using proven insurance purchasing pool techniques. Individual counties would not be in a position to effectively negotiate plan rates and ensure service quality.

Highlights for The Access for Infants and Mothers Program

Summary of Funding and Enrollment. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Eligible women select coverage from one of the nine participating health plans. Subscribers pay premiums equal to 2 percent of the family's annual income plus $100 for the infant's second year of coverage.

Beginning July 1, 2004, infants in families between 200 and 250 percent of poverty are funded through the Healthy Families Program using General Fund and federal Title XXI funds (35 percent/65 percent). AIM infants in families between 250 and 300 percent of poverty (above the Healthy Families Program income threshold) are funded with 100 percent state funds (General Fund and Proposition 99 Funds). This fiscal arrangement enables the state to more effectively utilize available federal funds and state funds.

A total of $118.1 million ($99.5 million Perinatal Insurance Fund, $6.5 million General Fund, $12.1 million federal funds) is proposed for AIM. A total of 8,783 women and 160,880 infants are expected to enroll in AIM in 2004-05. No significant policy or budget adjustments are proposed.

Highlights for The Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of $40 million (Major Risk Medical Insurance Fund) to serve 7,088 individuals. Presently there is a waiting list of 87 persons for the program. The budget proposes no substantial changes to the program.

4300 Department of Developmental Services

The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers and in state Developmental Centers for persons with developmental disabilities according to the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18th birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to: (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services and supports are cost-effective for the state.

Summary of Funding

The budget proposes total expenditures of $3.4 billion ($2.169 billion General Fund), for a *net* increase of $131 million ($114.2 million General Fund) over the revised 2003-04 budget, to provide services and supports to individuals with developmental disabilities living in the community or in state Developmental Centers.

Of the total amount, $2.708 billion ($1.8 billion General Fund) is for services provided in the community, $690.1 million ($370.3 million General Fund) is for support of the state Developmental Centers, $31.2 million ($20 million General Fund) is for state headquarters administration and $4 million (General Fund) is for state-mandated local programs.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Community Services Program	$2,554,079	$2,708,500	$154,421	6.0
Developmental Centers	$714,844	$690,076	-24,768	-3.5
State Administration	$29,857	$31,251	1,394	4.7
State Mandated Local Program	$4	$4	--	--
Total, Program Source	$3,298,784	$3,429,831	$131,047	4.0
Funding Source				
General Fund	2,054,876	2,169,085	114,911	5.9
Federal Funds	52,200	53,341	1,141	2.2
Program Development Fund	1,431	1,496	65	4.5
Lottery Education Fund	2,221	2,221	--	--
Developmental Disabilities Services	0	300	300	300
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	1,188,056	1,203,388	15,332	1.3
Total	$3,298,784	$3,429,831	$131,047	4.0

Highlights for Community-Based Services

Summary of Funding and Enrollment. The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

The budget proposes expenditures of $2.7 billion ($1.8 billion General Fund) for community-based services, provided via the RCs, to serve a total of 199,295 consumers living in the community. This reflects a *net* overall increase of $177.3 million ($108.3 million General Fund), or 7.1 percent, over the revised 2003-2004 budget. Most of this increase is attributable to the: (1) increase in enrollment—9,265 new consumers, (2) loss of $38 million in federal matching funds due to the Medicaid match change, (3) increase in the utilization of services by consumers, and (4) the transfer of the Habilitation Services Program to the DDS.

The funding level includes $420.1 million for RC operations and about $2.3 billion for local assistance, including funds for the purchase of services for consumers, program development assistance, the Early Start Program, and habilitation services.

Summary of Key Reductions and Augmentations

- **Continues Cost Containment Actions Taken in the Budget Act of 2003.** The Governor proposes to continue several cost containment actions enacted as part of the Budget Act of 2003. These include: (1) $10 million (General Fund) in unallocated reductions at the RCs for the purchase of services, (2) continuation of the Day Program rate freeze, (3) continuation of the contract services rate freeze, (4) continuation of the Community Care Facility rate freeze, (5) continuation of the elimination of the SSI/SSP pass-through to Community Care Facilities, (6) continuation of the delay in intake and assessment (60 days to 120 days), and (7) continuation of the non-community placement plan start-up suspension.

- **Significant Purchase of Services Cost Reduction at Regional Centers.** The Governor proposes to reduce by $100 million (General Fund) community-based services and supports for individuals with developmental disabilities receiving services through the RC system. No details as to how this reduction will be achieved have as yet been provided. The Administration states that the reduction will be achieved through a number of proposals to be implemented in 2004-05 and 2005-06. The proposals will recommend establishing purchase of services standards, share of cost liability, a standardized rate structure and an alternative service delivery method.

- **Co-Payment Assessment Program.** The Governor proposes to implement a plan to be submitted to the Legislature by April 1, 2004 that will propose a system of enrollment fees/copayments to be assessed on parents of minor children between the ages of 3 and 17 years who live at home and receive services through the Regional Centers. This proposal

corresponds to action taken by the Legislature through the Budget Act of 2003 whereby the Administration was directed to formulate a copayment plan based on a twelve point criteria.

Savings have not yet been assigned by the Administration for this proposal. Any savings will of course be contingent upon receipt of the April 1 plan by the Legislature and its final development, including the level of copayments or other cost sharing arrangements to be implemented and the application of any service thresholds. It should be noted that the Administration does include implementation of this program in its cost containment proposal to save $100 million General Fund from the RC purchase of services category.

- **Regional Center Operations Cost Containment.** The Governor proposes to reduce by $6.5 million (General Fund) the Operations portion of the Regional Centers budget to reflect reduced funding for various administrative activities. In essence, this is an unallocated reduction. The $6.5 million reduction represents about a 1.5 percent reduction to the $420.1 million (total funds) RC operations budget.

- **Transfer of Habilitation Services Program.** The Governor proposes an increase of $104.9 million (General Fund) to reflect the transfer of the Habilitation Services Program from the Department of Rehabilitation to the DDS. This transfer was approved by the Legislature through the Budget Act of 2003 and is to be effective as of July 1, 2004. The total funding for the Habilitation Services Program is $126.6 million (total funds).

- **Loss of Federal Funds from Medicaid Match Adjustment**. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 provided federal fiscal relief to the states for the period of April 2003 through June 2004. As such, California received an enhanced federal fund match for Medi-Cal during this period (54.3 percent from April 2003 through September 2003, and 52.9 percent from October 2003 through June 2004). The loss of this enhanced federal financial participation for 2004-05 results in an increased need of $38 million (General Fund) for the RCs.

- **Update in Savings for Eligibility Definition Change.** The Governor recognizes a savings of $4.1 million (General Fund) from the eligibility change implemented through the Budget Act of 2003. This equates to a doubling of the original savings level attributed to the change in the current-year.

- **Title XX Social Services Block Grant Fund Shift.** The Governor proposes to shift $48 million in federal Title XX Social Services Block Grant funds and delete a like amount in General Fund support for Regional Center services.

- **Receipt of Federal Grant—Real Choice Systems Change.** The Governor reflects an increase of $200,000 in federal grant funds awarded as a three-year demonstration and research grant to design a locally-based model for improving provider capability and testing a consumer/family satisfaction survey.

Issues for Community-Based Services

1. Significant Purchase of Services Cost Reduction at Regional Centers. The Governor proposes to reduce by $100 million (General Fund) community-based services and supports for

RC consumers in 2004-05. This reduction amount is in *addition* to the continuing cost containment actions enacted in the Budget Act of 2003 which in total, equate to savings of about $64 million ($52 million General Fund) in 2004-05. Further, it should be noted that in order for the Administration to obtain the proposed reduction figure of $100 million General Fund, in actuality, a reduction of about $130 million would need to be enacted due to federal funding interactions.

The Administration contends the reduction will be achieved through a number of proposals to be implemented in 2004-05 and 2005-06. Specific details as to how this reduction will be achieved are to be forthcoming at the May Revision. At this time, the Administration has provided only a conceptual outline of assumptions as follows:

2004-05

- Develop and implement uniform statewide purchase of services standards to govern RCs' expenditures for consumers and families;
- Give the state access to funds currently shielded in "special needs" trusts which are established for the care of the consumers;
- Promulgate statutory changes to provide RCs the authority and flexibility to achieve the savings level specified in the budget; and
- Implement a parental co-payment program, as referenced above.

2005-06

- Implement a standard, statewide rate system for major categories of services purchased by the RCs;
- Obtain federal approval to implement a Medicaid (Medi-Cal) "Independence Plus" (self-directed services) model of funding and service delivery, as well as a state-only version (for non-Medi-Cal eligible consumers) of the model in order to cap individual expenditures in exchange for increased consumer control over the services provided; and
- Expand the parental co-payment program for services purchased by RCs to children birth to three years of age as applicable. Federal approval would be required for this action.

As noted from the outline, the Administration has an ambitious plan proposed with little detail. Past approaches to implementing a statewide standard for the purchase of services have not been particularly constructive. Generally, the Administration has desired broad authority to (1) prohibit any consumer service or support, (2) unilaterally reduce provider rates, and (3) grant unprecedented authority to the RCs to deny services without any opportunities for consumers to appeal (i.e., no fair hearing process). Further, in reviewing past actual expenditures, it would be near impossible to achieve this $100 million General Fund savings in addition to the continued cost containment provisions unless certain services are eliminated and provider rates in many service categories are further reduced.

It is equally unclear at this time what interaction this proposal will have with the Administration's Medi-Cal Waiver reform concept, the Administration's proposed reductions to the In-Home Supportive Services (IHSS) Program, and the Administration's proposed changes to the definition of "medical necessity" for mental health services provided under the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program.

The Medi-Cal, IHSS and EPSDT programs all provide "generic" services to RC consumers in need of these services. When these generic services are not available, a RC is to purchase the needed service for the consumer. As such, the potential for cost-shifting, conflicts in policy, and potential risks to consumer health and safety could be significant. Considerable discussion and clarity as to both the short-term and longer-term implications of these proposals in combination need to be clearly understood.

It is equally unclear what potential ramifications this proposal will have on California's implementation of the Olmstead Decision (1999, 527 U.S. 581), as well as on our existing Home and Community-Based Waiver (up for federal oversight review in late 2005).

As specifics begin to come forth from the Administration it will be imperative for the Legislature to maintain both access and consumer choice to an array of services and supports, and to maintain legislative authority in order to preserve the integrity of the overall program. Any statutory language will need to be crafted carefully and thoughtfully with the involvement of the individuals and families who receive the services and with the various businesses who provide the services. Consumer health and safety issues will also be paramount.

2. Enhanced Federal Funds and the Home and Community-Based Waiver. Over the course of the past three years, the state has been aggressively pursing additional federal funds, most notably under the Home and Community-Based Waiver. Under this waiver, California can offer "nonmedical" services to individuals with developmental disabilities living in community settings who would otherwise require the level of care provided in a hospital, nursing facility, or intermediate care facility, or related conditions. Use of these "waiver services", such as assistance with daily living skills and day program habilitation, enable people to live in less restrictive environments such as in their home.

The waiver has allowed the state to conserve General Fund dollars by shifting Medicaid (Medi-Cal) eligible beneficiaries to waiver services while granting flexibility and assisting the state in complying with the Coffelt Settlement and the Olmstead Decision.

California obtained federal approval in 2003 to amend the Waiver to increase the number of individuals that can be enrolled each year as follows:

October 1, 2003 to September 30, 2004	60,000 individuals
October 1, 2004 to September 30, 2005	65,000 individuals
October 1, 2005 to September 30, 2006	70,000 individuals

Other key Waiver assumptions for the budget are as follows:

- Delay in federal approval to add respite voucher services to the Waiver for a loss of about $5 million in funding.
- Decrease of $13.2 million in reimbursements for certain Waiver administrative activities due to the need for additional DDS analysis as to how to proceed with capturing data.
- Obtained federal approval to lift the existing freeze on enrollment under the Waiver for South Center Los Angeles Regional Center. Billing for eligible consumers will be retroactive to October 1, 2002.

There is further potential to obtain more federal funding under this waiver. For example, there is potential to restructure or add more services to the Waiver, particularly in the areas of education services and targeted case management. In addition, some administrative functions may qualify for a 75 percent federal match instead of the 50 percent match that is assumed in the proposal. Further research on this issue is forthcoming.

Highlights for State Developmental Centers

Summary of Funding and Enrollment. The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

The budget proposes expenditures of $690.1 million ($370.3 million General Fund), excluding state support, to serve 3,367 residents who reside in the state Developmental Center system. This reflects a caseload decrease of 123 residents and a net decrease in funds of $24.8 million as compared to the revised 2003-04 budget.

According to recent DDS data, the average cost per person residing at a DC is about $180,000 annually. Due to differences between the DCs, including resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors, the annual cost per resident varies considerably and is as follows:

- Canyon Springs $255,574 annual cost per resident
- Sierra Vista $213,923
- Agnews $208,935
- Lanterman $158,336
- Sonoma $157,530
- Fairview $147,690

Summary of Governor's Reductions & Augmentations

- **Developmental Center Resident Population.** The Governor proposes a decrease of $16 million ($9.3 million General Fund) and 210 positions resulting from a projected net decline in population of 123 residents (from 3,490 residents to 3,367 residents).
- **Proposed Contracting Out for Services.** The Governor proposes a reduction of $1.6 million ($910,000 General Fund) and 459 state positions by contracting out for food services at the Developmental Centers. Under this proposal the DDS would begin contracting out for food services as of January 1, 2005. It should be noted that this proposal, along with others regarding contracting out, would require a state constitutional amendment to enact.
- **Life Services Alternative Project.** The Governor continues to provide $1 million (total funds) for the Life Services Alternative Project (LSA). The purpose of this project is to

create least restrictive home-like settings for individuals primarily transitioning from Agnews Developmental Center, which is slated to close as of June 30, 2005, to the community. It should be noted that issues regarding the licensing and certification of these facilities have arisen within the Administration and that considerable more work needs to be completed.

- **Closure Plan for Agnews Developmental Center.** The Governor is continuing with the development of a closure plan for Agnews Developmental Center. Existing statute requires the Administration to provide the Legislature with a detailed closure plan by April 1 preceding the year of closure (i.e., April 1, 2004 plan due for a June 30, 2005 closure date). Discussions regarding the closure plan will occur during the Subcommittee process.

4440 Department of Mental Health

The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of four State Hospitals—Atascadero, Metropolitan, Napa and Patton--, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992. Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available, (2) the Medi-Cal Mental Health Managed Care Program, (3) the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for adolescents, and (4) mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

The budget proposes expenditures of $2.5 billion ($910.7 million General Fund) for mental health services, including state support. This reflects a *net* increase of $165.9 million ($31.7 million General Fund) over the revised 2003-04 budget. As noted in the table below, $1.8 billion is for local assistance, $735.6 million is for the State Hospitals, and $7 million (General Fund) is for state mandated local programs.

The department's support budget of $18.4 million is distributed as applicable across the Community Services Program and State Hospital line items. Specifically, $10.6 million ($6.5 million General Fund) is attributable to the Community Services Program and $7.8 million (General Fund) is to support the State Hospitals.

In addition, it is estimated that almost $1.128 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals.

Further, an appropriation of $14.2 million ($429,000 General Fund and $13.8 million Public Building Construction Fund) is provided for capital outlay purposes at the State Hospitals. Of this amount, $8.2 million is for Coalinga State Hospital (phased construction) with the remaining amount being used for various projects at the Metropolitan, Patton and Atascadero facilities.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	$ Change	% Change
Program Source				
Community Services Program	$1,672,199	$1,807,088	$134,889	8
Long Term Care Services	704,631	735,631	$31,000	4.4
State Mandated Local Programs	6	7	1	16.6
Total, Program Source	$2,376,836	$2,542,726	$165,890	6.9
Funding Source				
General Fund	$878,929	$910,658	$31,729	3.6
Federal Funds	61,993	61,917	(76)	(.1)
Reimbursements	1,432,942	1,567,332	134,390	9.3
Traumatic Brain Injury Fund	1,575	1,422	(153)	9.7
CA State Lottery Education Fund	1,397	1,397	0	0
Total Department	$2,376,836	$2,542,726	$165,890	6.9

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of $1.807 billion (total funds) for community-based local assistance, including Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment Program, applicable state support, the Conditional Release Program and related community-based programs. This reflects a *net* increase of $134.9 million (total funds) as compared to the revised 2003-04 budget. This increase is primarily due to caseload and utilization of services adjustments in the baseline EPSDT Program and Mental Health Managed Care, as well as an adjustment to the San Mateo Field Test Project.

In addition, it is estimated that $1.128 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. This estimate is based on the following revenue estimates:

- Sales Tax $834,609,000
- Vehicle License Fee Account $279,108,000
- Vehicle License Fee Growth Account $14,541,000
- Sales Tax Growth Account $-0-

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth

account. The first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues is then distributed according to a formula in statute.

As discussed in a recently released report on mental health realignment (AB 328 Realignment Data, Department of Mental Health, February 5, 2003), due to continued caseload growth in Child Welfare services and Foster Care, as well as cost increases in the In Home Supportive Services (IHSS) Program, growth distributions to the Mental Health Subaccount and Health Subaccount have been substantially reduced.

Summary of Governor's Reductions and Augmentations

- **Eliminates Children's System of Care Program.** The Governor eliminates this highly effective program which provides medically needed mental health treatment services to children with severe emotional disturbances for proposed savings of $20 million General Fund.

- **Reduces Early Mental Health Initiative for Children.** The Governor reduces by $5 million (Proposition 98/General Fund) the Early Mental Health Initiative Program which provides mental health assistance to young children enrolled in school (K to Grade 3). This proposed reduction would leave a remaining $5 million (Proposition 98/General Fund).

- **Proposes New Federal Waiver for EPSDT to Redefine Medical Necessity.** The Governor is requesting an increase of $472,000 ($236,000 General Fund) for administrative resources to develop a federal 1115 Medicaid Waiver for the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program. The purpose of this waiver would be to redefine medical necessity with the intent of reducing future expenditures for children's mental health services. This proposal raises many questions, including whether recent California court settlements (T.L. versus Belshe' of 1994 and Emily Q. versus Bonta' of 2000) regarding the provision of EPSDT services would be violated. It should be noted that two states—Oregon and Arkansas—have obtained federal approval to "waive" the definition of medical necessity as contained in federal law and have narrowed its application in their state programs.

- **Recalculation of Mental Health Services Rates to Reduce Expenditures.** The Governor assumes savings of $40 million (General Fund) from the EPSDT Program, and a reduction of up to $90 million in federal funds (EPSDT and Adult outpatient), by recalculating the statewide maximum allowances paid for certain mental health services provided under the Medi-Cal Program. The state intends to use actual cost settled data from 2001-02 as a primary component of this recalculation. The state will also be seeking federal approval to allow certain public providers, such as County Mental Health Plans (County MHPs), to exceed the recalculated maximum allowances in order to retain a portion of federal matching funds. If successful in this effort, the potential loss of federal funds to County MHPs would be about $45 million as compared to $90 million.

- **Hire Contractors for Increased Oversight of EPSDT Program Expenditures and Recoup Audit Exceptions from County Mental Health Plans.** The Governor proposes an increase of $1.7 million ($844,000 General Fund) to hire contractors to conduct additional reviews and oversight of EPSDT Program expenditures, and assumes savings of $13 million ($6.5 million General Fund) from these audit efforts. This estimated savings level represents

about two percent of the total EPSDT Program for 2002-03, the year that will be initially audited. Further it assumes that the state will collect any disallowances directly from the County MHPs, even if a private provider is responsible for the audit exception.

- **Baseline Adjustments for EPSDT Program.** The Governor provides a net increase of $244.6 million ($111.6 million General Fund, and $10.7 million County Realignment Funds) for this program to reflect increases in both caseload and the utilization of mental health treatment services provided to children with severe mental illness.

- **Eliminates Certain Supplemental Funds for Counties.** The Governor eliminates $416,000 (General Fund) for supplemental funding to Sacramento County's Psychiatric Health Facility, as well as $308,000 (General Fund) used by thirteen counties to match federal rehabilitation funds.

- **Eliminates IMD Transition Projects.** The Governor eliminates the Institutions for Mental Disease (IMD) Transition Projects for savings of $650,000 (General Fund). The purpose of these projects are to assist California in complying with the U.S. Supreme Court decision regarding Olmstead and the provision of community-based services.

- **Adjustments to Mental Health Managed Care.** The Governor provides a net increase of $5.1 million (General Fund) to reflect caseload adjustments and related technical items. It should be noted that he did not include any medical treatment cost-of-living-adjustment as provided for in state statute. This will be the fourth consecutive year in which an adjustment has not been provided to the counties.

- **Concerns Continue for AB 3632 Funding for Special Education Pupils.** The Governor proposes to continue to provide $69 million (federal special education funds) to Local Education Agencies who in turn, will reimburse County MHPs. However, counties provide mental health treatment services to about 27,000 students annually at a total cost of about $120 million. As such, counties are utilizing their County Realignment Funds for this purpose.

- **Continues the Integrated Services for Homeless Adults Program.** The Governor continues to provide $54.9 million (General Fund) to selected counties for this effective treatment program.

- **Continues Supplemental Funding as Required for Healthy Families Program.** The Governor provides an increase of $3 million (federal funds and County Realignment Funds) to reflect caseload adjustments for supplemental mental health treatment services provided by the counties under the Healthy Families Program for children with intensive mental health needs.

- **San Mateo Field Test.** The Governor provides an increase of $3.3 million (Reimbursements) to reflect adjustments as required for pharmacy expenditures.

- **New Federal Dual Diagnosis Grant.** The Governor reflects an increase of $325,000 (federal funds) for the receipt of a three-year grant regarding dual diagnosis (mental illness and alcohol/illicit drug usage).

- **Funds for Partial Settlement of PASRR Issues.** The Governor proposes an increase of $1.9 million ($470,000 General Fund) to pay for costs associated with a proposed settlement of the Preadmission Screening and Resident Review (PASRR) portion of the Davis lawsuit. This funding will primarily be used to support information technology activities associated with the clinical instrument used to evaluate persons residing in, or entering into, skilled nursing facilities, including IMD facilities.

- **Small Federal Grant for Large-Scale Emergency.** The Governor reflects an increase of $100,000 (federal funds) for the first year of a two-year federal grant. The purpose of this grant is to enhance the state's capacity for a coordinated response to mental health and substance abuse services needed in the aftermath of a large-scale emergency.

Issues for Community-Based Mental Health

1. Substantial Changes Proposed for Children's Mental Health.

Background. The Medi-Cal Program is the most significant source of funding for children's mental health services in California. Most of these services are provided through the federally required Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, a fee-for-service Medi-Cal Program operated through County Mental Health Plans (County MHPs). Under EPSDT, Medi-Cal recipients under age 21 may receive any mental health service that is medically necessary to correct or ameliorate a mental illness. In addition, three other programs—AB 3632 funding for special education pupils, the Children's System of Care Program and the Early Mental Health Initiative (EMI) for Children—provide additional clinical and support services for the treatment of mental illness in children.

Budget Proposals. The budget proposes substantial changes to mental health services provided to children with a clinical diagnosis of mental illness. In fact, all of the children's programs are slated for either elimination, reduction, or restructuring for purposes of cost-shifting to the counties. These proposals are as follows:

- **Children's System of Care.** The budget eliminates the Children's System of Care Program which targets adolescents 18 years and under who have a mental disorder that results in substantial impairment in two or more areas, such as school performance, family relationships, and the ability to function in the community. Through this program, the counties provide mental health services to target children in an integrated manner, including family participation. Evaluations of the program have shown that the program is cost-beneficial including savings in service expenditures for group homes, special education and juvenile justice. The budget assumes savings of $20 million General Fund from its elimination.

- **Early Periodic Screening Diagnosis and Treatment (EPSDT).** In 1994 (T.L. versus Belshe') the courts ruled that California must expand its abilities in identifying children with severe mental illness, as well as the outpatient mental health treatment services available to this population. In 2000, the court added additional services to California's EPSDT Program, most notably Therapeutic Behavioral Services. Since this time, the state has improved its service level. However, treatment prevalence rates are still quite low—about 8 percent—compared to need—about 13 percent of the state's children are seriously emotionally disturbed.

Under the state's agreement with the County MHPs, each county must provide a baseline level of funding using County Realignment Funds (essentially a maintenance of effort) plus an additional 10 percent county match which was instituted in 2002. The state is responsible for providing the non-federal share of the growth in the program. These county and state funds are then used as a match to obtain federal Medicaid moneys.

The proposed budget funding level incorporates several items as follows:

- Requests to commence with a new federal waiver to narrow the criteria for determining medical necessity. No criteria or further details have been provided as to what is intended, other than cost containment.
- Recalculates the rate (i.e., state's maximum allowances paid) paid for EPSDT services based on data from three years ago to obtain savings of $40 million in General Fund support and up to $90 million in federal funds. The state will also be seeking federal approval to allow certain public providers to retain a portion of the loss in federal funds but it is unclear whether the federal government will provide for this arrangement.
- Assumes a reduction of $13 million ($6.5 million General Fund) by conducting audits of the EPSDT Program. This proposal assumes that the state will collect any disallowances directly from the County MHPs, even if a private provider is responsible for the audit exception.

- **AB 3632 Mental Health Funding for Special Education Pupils.** AB 3632 shifted responsibility for proving mental health treatment services to special education pupils from Local Education Agencies (LEAs) to County MHPs in 1984. However, appropriate funding was not shifted to cover these services. As such, County MHPs have cobbled together a stream of funds including County Realignment Funds, state mandate claims, and more recently federal funds, to meet the needs of these students. It is estimated that County MHPs provide AB 3632 services to about 27,000 students each year for a total annual cost of $120 million.

  Due to recent fiscal constraints, the state has suspended state mandate claims for the past three-years, including this one. Though the Budget Act of 2003 appropriated $69 million in federal IDEA funds to assist with these services, counties are still under funded going into the budget year, as well as being owed for some past state mandate claims. The Governor's budget as proposed does not identify any additional funding for these continuing services to special education students. As such, many counties are having to utilize their County Realignment Funds for this purpose.

- **Early Mental Health Initiative for K to Grade 3.** The Early Mental Health Initiative is an effective school-based program that serves children experiencing school adjustment issues who are *not* otherwise eligible for special education assistance or county mental health services. The state awards grants (for up to three-years) to Local Education Agencies (LEAs) to implement early mental health intervention and prevention programs for students in Kindergarten through Third Grade. Schools that receive grants must also provide at least a 50 percent match to the funding provided by the DMH. Schools use the funds to employ child aides who work with students to enhance the student's social and emotional development.

The budget proposes to reduce by $5 million (Proposition 98-General Fund), leaving only $5 million remaining in the program. According to the DMH, this level of funding will support 73 grants which are in their third, and last, grant cycle. As such, the program would effectively be eliminated unless new grants were awarded in 2005-06.

Highlights for the State Hospitals

Summary of State Hospital Patient Caseload—Primarily Penal Code. The DMH estimates a population of 4,327 patients for 2004-05 (as of June 30, 2005) at the four State Hospitals-- Napa, Metropolitan, Patton, and Atascadero. This patient level reflects a proposed *net* decrease of 107 patients as noted in the table below.

Patient Type	2003-04 Revised Caseload	2004-05 Proposed Caseload	Caseload Percent By Patient Type	Difference
IST	847	815	18.8	-32
NGI	1,198	1,198	27.7	0
MDO	860	879	20.3	19
SVP	550	516	11.9	-34
Other PC	118	118	2.7	0
LPS—county	660	600	13.9	-60
PC 2684/2974	171	171	4	0
CY Authority	30	30	.7	0
Totals	**4,434**	**4,327**	**100 %**	**-107**

Of the total patient population, over 86 percent of the beds are designated for penal code-related patients and only 14 percent are to be purchased by the counties (i.e., Lanterman-Petris-Short beds), primarily Los Angeles County.

Penal Code-related patients include individuals who are classified as: (1) not guilty by reason of insanity (NGI), (2) incompetent to stand trial (IST), (3) mentally disordered offenders (MDO), (4) sexually violent predators (SVP), and (5) other miscellaneous categories as noted. It should also be noted that based on recent patient statistics, about 62 percent of the State Hospital patients have a diagnostic category of Schizoaffective Disorder, including Paranoid Schizophrenia.

Substantial policy changes are being proposed through the budget, including changes to the state-county partnership for the funding of certain State Hospital patient populations, and the treatment and housing of the Sexually Violent Predator population. These proposed policy changes are reflected in the proposed decreases to the patient populations of the IST, NGI and SVP categories above. As discussed below, the Governor assumes savings of $17.2 million (General Fund) in 2004-05 and $25.6 million (General Fund) in 2005-06 from these policy changes. The proposed changes do require statute.

Summary of Funding for the State Hospitals. The budget proposes expenditures of $702.4 million ($561.3 million General Fund) for the State Hospitals, excluding state headquarters' support, for a *net* increase of about $31.6 million ($36.4 million General Fund) over the Budget Act of 2003. Adjustments contained in this funding level are discussed below. In addition, an

appropriation of $14.2 million ($429,000 General Fund and $13.8 million Public Building Construction Fund) is provided for capital outlay purposes at the hospitals.

As structured through the State-Local Realignment statutes of 1991 and 1992, the department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds. However, the Governor is proposing changes to this funding partnership by: (1) capping the enrollment of ISTs and NGI patients, and (2) shifting pre-commitment SVPs presently residing at the State Hospitals back to the counties. Therefore, counties would be required to fund these responsibilities using County Realignment Funds (no federal match is available for this patient population).

Summary of Governor's Reductions and Augmentations

- **Limit Access to State Hospital Services for Certain Penal Code Patients.** The budget assumes implementation of the Governor's Mid-Year Reduction to cap access to the State Hospitals for patients deemed to be Incompetent to Stand Trial (IST) and Not Guilty by Reason of Insanity (NGI). Anticipated savings in the budget year are $3.4 million General Fund. The budget assumes the state will cap the NGI patient population at 1,198 patients as of January 1, 2004, and that 42 NGI patients would transfer to the counties. The IST cap would be 847 as of January 1, 2004, and it is assumed that 32 IST patients would transfer to the counties.

  The Governor assumes that these mentally ill individuals, who often have a diagnosis of Schizophrenia, will be housed in county jails and therefore, will be funded *entirely* by county funds in lieu of existing state support. This proposal represents a significant policy change from the State-Local Realignment agreement of 1991 and 1992, and requires statutory change for implementation. Further, this proposed policy change raises several questions including: (1) whether said legislation would be deemed a reimbursable state mandate for affected counties, (2) whether said action would withstand a court challenge about patient's being denied appropriate mental health treatment, and (3) how this proposed change would interact with the opening of the new Coalinga State Hospital.

- **Hold Pre-Commitment Sexually Violent Predators at Local Level Prior to Commitment Hearing.** The Governor assumes savings of $10.7 million (General Fund) by holding pre-commitment SVPs in local custody if they have completed their prison sentence and are waiting for a commitment hearing. Counties would be funding these costs until a commitment hearing is convened and a determination is made. There are presently about 100 pre-commitment SVP patients who would be transferred back to the counties. This proposal requires statutory change.

- **Proposes Commitment of Sexually Violent Predators (SVP) for Indeterminate Length.** The Governor assumes a reduction of $2 million (General Fund) by statutorily changing the SVP commitment law from a two-year psychiatric re-evaluation period to an indeterminate length to reduce the number of psychiatric evaluations and re-commitment trials. The Administration states that in its review of 13 states, California was the only state with a determinate commitment period.

- **Reduce Treatment Services for SVPs**. The budget assumes savings of $823,000 (General Fund) by reducing the supervision and treatment services provided to SVPs at the State Hospitals. Generally, the Administration is proposing to reduce treatment staff because they contend that about 60 percent of the SVP patients refuse to participate in treatment anyway. Savings from this proposal are estimated to be $823,000 (General Fund) in 2004-05 and $9.2 million (General Fund) in 2005-06.

- **Continued Activation of Coalinga State Hospital.** The Governor proposes an increase of $24.9 million (General Fund) for the continued activation of Coalinga State Hospital, including $3.2 million to support recruitment and retention costs to aid in hiring personnel and $12.2 million for operating expenses and equipment.

- **Conditional Release Program (CONREP).** The Governor proposes an increase of $657,000 (General Fund) to reflect increases in both caseload and the average annual cost per CONREP patient.